Local Government SUSTAINABLE ENERGY Coalition

P.O. Box 3629 · Oakland · California · 94609
510/459-0667

MEMORANDUM

TO: LGSEC Members

FROM: Jody London, Regulatory Consultant

SUBJECT: CPUC Proposed Decision on Energy Efficiency Rolling Portfolio (R.13-11-005)

DATE: August 19, 2015

This memo summarizes the Proposed Decision from the California Public Utilities Commission ("CPUC") that implements the ten-year Rolling Portfolio for energy efficiency (R.13-11-005). The Proposed Decision , which is over 100 pages, largely adopts the proposal from a coalition of parties (in which the LGSEC participated) on how to implement the Rolling Portfolio. The Proposed Decision does not address local government partnerships at all, something on which we may wish to comment. Below I provide an overview of the key issues addressed in the Proposed Decision, which the CPUC will consider at its September 17 business meeting.

Comments on this Proposed Decision will be due on Tuesday, September 8 (day after Labor Day), with reply comments due on Monday, September 14. At the end of this memo (p. 5), I identify potential topics for our comments.

Energy Savings Goals

The Proposed Decision adopts energy savings goals for nine years, based on a study by Navigant that updated the existing model. The CPUC expects these goals will be updated with new values by 2018. The goals are pretty similar as those adopted for 2015, except that more savings are moving to codes and standards, and fewer are expected from rebate programs. Due to the limitations of the data, the CPUC has to adopt goals by IOU service territory, rather than separate goals for Regional Energy Networks ("RENs") and Community Choice Aggregators ("CCAs"), who also serve as Program Administrators ("PAs") for energy efficiency.

The Proposed Decision focuses on market potential, not economic potential, and includes a discussion of why economic potential does not reflect how things actually work in the market. The Proposed Decision adopts a mid-case, recognizing that the goals the CPUC adopts feed in to work of other actors, including state agencies and local governments.

The Proposed Decision states that Program Administrators don't have to adopt a specific portfolio structure to achieve goals, they have flexibility in how they design their portfolios. It also finds that cross cutting programs should be treated as their own portfolio sector.

Rolling Portfolio Implementation

The Proposed Decision adopts the proposal from the Joint Parties, with a few deviations. The basic structure is:

1. Strategic Plan – Commission developed, provides overarching guidance to PAs.
2. Business Plan – PA and stakeholder developed, PAs file periodically via application for Commission review; explains at a high level of abstraction how PAs will achieve the goals of the Commission's strategic plan; leads to a Commission guidance decision adopting the business plan and setting budget expectations to be more fully developed in annual budget filings.
3. Annual Budget – PA and stakeholder developed, PAs file annually via advice letter; provides a budget for the programs/implementation strategies described in the business plans.
4. Implementation Plan – PA and stakeholder developed, not formally filed with the Commission; uploaded onto a Commission-maintained website as (and a PA website also, at each PA's discretion); provides detail on programs/implementation strategies.

Mechanics

Coordinating Committee

The Proposed Decision discusses how the proposal from the parties was, from the CPUC's perspective, less transparent than the current process, while recognizing that the parties find the opposite. The CPUC needs more opportunities to weigh in than the proposal included. Toward this end, the CPUC will fund a stakeholder-led coordinating committee to work collaboratively on energy efficiency programs.

There will be one statewide coordinating committee. Gone will be the Program Advisory Groups for individual utilities. The coordinating committee will select a single person as chair for the coordinating committee, and also will pick individual chairs for each subcommittee. The Coordinating Committee is expected to publish its agendas and meeting schedule annually, which must be filed in January as a Tier 1 advice letter by one of the Program Administrators. The Coordinating Committee can use outside facilitators to run its process. Program Administrators will fund the Coordinating Committee out of their authorized budgets on a pro rata basis. Submission of workpapers by administrators can be consolidated into semi-monthly windows.

Expectations around work of the coordinating committee include:

i. Participate in development of business plans prior to and throughout the drafting process;
ii. Participate in development of implementation plans, again, prior to and throughout the drafting process;
iii. Participate in development of annual budget advice letters, again, prior to and throughout the drafting process; and,
iv. Develop and revise metrics for inclusion in business plans and implementation plans as part of i and ii.

Business Plans

Program administrators are ordered to submit an initial business plan in 2015 as an application. Appendix 4 to the decision has specifics on what it must include. Business plans also must be submitted at specific times:

1. A Program Administrator is unable to adjust its portfolio in response to goal, parameter, or other updates to:
    a. meet savings goals,
    b. stay within the budget parameters of the last-approvedbusiness plan, or
    c. meet the Commission-established cost effectiveness (excluding Codes and Standards and spillover adjustments)
2. The Commission calls for a new application as a result of a decision in the policy track of the proceeding (or for any other reason);
3. The affected PA must file a business plan not less than one year prior to the end of funding.
4. An administrator can file a revised application as an application whenever it chooses.

Appendix 3 is the template for the business plans. Appendix 4 is the template for the implementation plans. It is not clear whether this is more or less paperwork, as the implementation plans must include a lot of detail, including manuals. Appendix 6 is a flow chart that shows the timing of the different activities.

Annual Updates

Each energy efficiency program administrator will be required to file a Tier 2 advice letter containing a budget for the next calendar year's energy efficiency portfolio by the first business day in September. The advice letter will contain a portfolio cost effectiveness statement and application summary tables with forecast budgets and savings by sector and program/intervention. Additionally, the advice letter will provide a report on portfolio changes, annual spending, and fund shifting.

PAs will upload all new implementation plans and all associated cost and savings data to a Commission-maintained online system. Each PA will maintain current implementation plans on the online system. PAs will catalog any changes to implementation plans when made. Commission Staff will be responsible for developing additional annual filing guidance and the tools to track compliance, simplify submission, and ensure transparency, and are directed to provide the filing tool in time for an annual budget submission in 2016.

Reporting by Program Administrators

PAs will continue to provide monthly cost reports for all programs. For resource programs, PAs shall continue to provide monthly savings data as well. PAs are relieved of their reporting requirements for both program performance metrics and market transformation indicators.

Evaluation, Measurement, and Verification

CPUC staff will continue to manage EM&V. Commission Staff and PAs will issue EM&V reports also using an annual "bus stop" approach, which is also being adopted to address updates to the savings assigned to specific measures. The Proposed Decision notes that the research available for the "bus stop" in any given year is not expected to reflect the last year of program activity. Results will be based on information gathered and built over a longer period of time.

This process will be updated to include new Program Administrators. CPUC staff is directed to make changes to the EM&V process so that it "does not ossify." (p. 76) A broader reexamination of EM&V will occur in Phase 3. Program administrators are encouraged to make changes to programs as EM&V information becomes available.

Shareholder Incentives

The Rolling Portfolio also impacts the process by which the utilities apply for and are granted shareholder incentives. The CPUC is in process with the State Controller's Office of a review of current accounting systems used by the Program Administrators. The CPUC is pushing utilities to use the same accounting practices as each other.

A key recommendation in this section is to clarify between "committed," "spent/unspent," and "encumbered" funds. The Proposed Decision states a goal of simplifying or eliminating the use of these funds as the basis for determining carryover amounts from one year to the next. The Proposed Decision acknowledges that this will be a particular concern for RENs and CCAs, whose budgets are much smaller than the utilities, and states: "For the time being we will defer to later in Phase II of this proceeding consideration of proposals to allow a carry-forward of unspent portions of annual budgets (or borrowing from future years when annual spend exceeds the budget)."

Fund Shifting

Fund shifting requirements are significantly loosened, as Program Administrators no longer need to file an advice letter when they are shifting funds. Program Administrators will instead track fund shifting on the online tool and report updated budgets in their annual budget filings. If Commission Staff or stakeholders can raise any concerns in response to the next budget advice letter.

<u>What's Next</u>

There will be another decision in Phase 2, with a target for early 2016. This decision will look at standardizing statewide programs and possible changes to third party programs. Until a decision comes out, programs can continue as currently authorized.

Phase 3 will begin after the next decision in Phase 2 (so first half of 2016) with a look at baseline issues, and then the role of the utility in energy efficiency. (p. 43) The Proposed Decision offers a telling observation in the context of Phase 3:

"Looking ahead to Phase III of this proceeding, many important policy issues remain before us. Energy savings goals continue to go up, while we are to some extent a victim of our own success: the low-hanging fruit has largely been harvested. Energy efficiency portfolios as we know them are on the verge of no longer being cost effective. Program Administrator expenditures on costs other than customer rebates appear excessive, as they have come to represent approximately half of portfolio expenditures. The rate of observed savings compared to forecast savings is distressingly low in some market sectors. *Ex ante* review continues to be a source of controversy." (p. 2)

<u>Potential Topics for LGSEC Comments on Proposed Decision</u>

The Proposed Decision is reasonably true to the proposal brought forward by the coalition in which the LGSEC participated. That group will be reconvening next week to discuss reactions to the Proposed Decision and whether they will jointly comment on the Proposed Decision.

You suggestions on issues we should address are most welcome. I will work with the Energy Efficiency Policy Committee and the Board to develop a response; if you'd like to be involved and are not on that committee please let me know.   At this time, my suggestion is we support the Proposed Decision. We may want to point out that ensuring that the stability granted to the Program Administrators should also be provided to local governments that are working with the Program Administrators. This will allow local governments to continue to use local tools and resources to support the aggressive building efficiency goals established by the Governor.

Please contact me with any questions or comments.